

Message Text

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42

ACTION EB-07

INFO OCT-01 EUR-12 EA-06 ISO-00 TRSE-00 FEA-01 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01

H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 FRB-03 IO-10

PA-01 PRS-01 GSA-01 /113 W

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P R 251345Z JUL 75

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 2279

INFO AMEMBASSY ANKARA

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY WELLINGTON

USMISSION EC BRUSSELS

USMISSION OECD PARIS

C O N F I D E N T I A L ROME 10749

E.O. 11652: GDS

TAGS: ENRG, IEA, EEC, IT

SUBJECT: IEA GOVERNING BOARD ISSUES AT JULY 28-29 MEETING:

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EMERGENCY STOCKS

REF: STATE 173003

1. AS INSTRUCTED REFTTEL, EMBOFF PASSED SUBSTANCE OF MESSAGE TO MINISTRY FOREIGN AFFAIRS (MFA) REP COSTA (DIRECTOR, OFFICE OF ENERGY AFFAIRS) ON JULY 23.

2. COSTA SAID GOI AGREED IN PRINCIPLE THAT EMERGENCY RESERVES SHOULD BE 90 DAYS BY 1980. EC MEMBER COUNTRIES HAVE, IN FACT, ALREADY AGREED IN EC CONTEXT UPON 90 DAY EMERGENCY RESERVE REQUIREMENT. UNFORTUNATELY, FROM GOI VIEWPOINT, EC AND IEA DEFINITIONS OF EMERGENCY RESERVES ARE NOT COMPARABLE SO THAT IEA'S 90 DAYS IS EQUIVALENT TO ABOUT 120 EC DAYS. GOI WOULD LIKE TO SEE IEA DEFINITION REDRAFTED TO CONFORM WITH EC DEFINITION, SO THAT BOTH IEA AND EC OPERATE ON SAME BASIS. MINISTRY INDUSTRY BELIEVES THIS WOULD BE MOST SATISFACTORY WAY TO REACH 90 DAY LEVEL OF EMERGENCY RESERVES.

3. EMBOFF THEN REEMPHASIZED NEED FOR REAL, NOT PAPER, ACTION ON EMERGENCY RESERVES IN ORDER MAINTAIN IEA CREDIBILITY VIS-A-VIS PRODUCERS. USE OF WATERED-DOWN DEFINITION OF EMERGENCY RESERVES OR REDUCTION OF UNAVAILABLE STOCKS FROM 10 TO 5 PERCENT, WHILE IT MIGHT BE LEAST PAINFUL METHOD OF ACHIEVING 90-DAY LEVEL OF EMERGENCY RESERVES, WOULD ONLY SERVE TO CONVINCE PRODUCERS THAT IEA MEMBERS UNWILLING COMMIT REAL RESOURCES TO ACHIEVE AGREED UPON IEA OBJECTIVES, AND HENCE DO NOT TAKE IEA SERIOUSLY. EMBOFF NOTED THAT CREDIBILITY ISSUE APPEARED TO BE IMPORTANT TO GOI, SINCE IT WAS BASIS FOR GOI NOT WISHING DISCUSS OR MOVE AHEAD ON MINIMUM SAFEGUARD PRICE (MSP) ISSUE AT THIS TIME.

4. COSTA THEN SHIFTED GROUND, ARGUING THAT COST OF INCREASING ITALY'S EMERGENCY RESERVES FROM 60 TO 90 IEA DAYS, ESTIMATED AT ABOUT 500 BILLION LIRE (\$770 MILLION AT \$1 US EQUALS 650 LIRE) BY THE MINISTRY OF INDUSTRY, IS BEYOND PRESENT CAPABILITY OF EITHER GOI OR OIL COMPANIES. DIFFICULTY IN SECURING ADEQUATE FINANCING FOR ENEL NUCLEAR POWER PROGRAM, WITH WHICH USG FAMILIAR, INDICATIVE OF NATURE OF PROBLEM FOR GOI. OIL COMPANIES ALLEGEDLY LOSING MONEY ON THEIR ITALIAN OPERATIONS. (COSTA IMPLIED THEY MIGHT CHOOSE TO WITHDRAW FROM CONFIDENTIAL

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MARKET RATHER THAN INVEST MORE MONEY IF DIRECTED BY GOI TO INCREASE THEIR EMERGENCY RESERVES.) COSTA ALSO ARGUED THAT PURCHASING OIL FOR EMERGENCY STOCKS MIGHT PUT UPWARD PRESSURE ON OIL PRICES. EMBOFF RESPONDED THAT THIS DID NOT APPEAR LIKELY SINCE PURCHASES COULD BE SPREAD OVER FIVE-YEAR PERIOD. COSTA ALSO NOTED THAT ACQUIRING SUITABLE LOCATION FOR ADDITIONAL STORAGE FACILITIES WOULD BE A REAL PROBLEM, GIVEN RESISTANCE OF ENVIRONMENTAL GROUPS AND LOCAL AUTHORITIES TO

ESTABLISHMENT OF SUCH FACILITIES.

5. COMMENT: FINANCIAL AND LOCATION FACTORS NOTED PARA (4)
ABOVE POSE REAL PROBLEM FOR GOI. EMBASSY THEREFORE DOES NOT
EXPECT ITALIAN SUPPORT FOR USG POSITION AT JULY 28-29 GOVER-
NING BOARD. GOI, ESPECIALLY MINISTRY INDUSTRY, IS LOOKING FOR
EASIEST WAY OUT. VOLPE

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